

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-11

L-03 NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03 SS-20

USIA-15 AID-20 EB-11 CIEP-03 TRSE-00 STR-08 OMB-01

CEA-02 COME-00 FRB-03 XMB-07 OPIC-12 LAB-06 SIL-01

AGR-20 DRC-01 /207 W

----- 046932

R 271752Z SEP 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 4320

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

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DEPT PASS TREASURY AND FRB

EO 11652: NA

TAGS: ECON UK

SUBJ: ECONOMIC DEVELOPMENTS - WEEK ENDING SEPT 27

BEGIN SUMMARY: THE MAIN ECONOMIC NEWS OF THE WEEK SEPT 23-27

CONCERNED THE COMPANY LIQUIDITY PROBLEM. THERE WERE ALSO STATEMENTS

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MADE THAT A NEW BUDGET WILL COME AFTER THE ELECTION IF LABOUR

RETURNS AND THAT IT WILL ENDEAVOR TO ALLEVIATE THE CASH-FLOW PROBLEM OF COMPANIES AS WELL AS AIM AT OTHER OBJECTIVES. THE ONLY DATA RELEASED THIS WEEK (GDP) UNDERSCORES THE WEAKENING TRENDS OF THE UK ECONOMY. STERLING, ON THE OTHER HAND, SHOWED CONSIDERABLE STRENGTH AS THE WEEK ENDED, CLOSING ON THURSDAY (SEPT 26) AT \$2.3235 COMPARED TO LAST THURSDAY'S CLOSE OF \$2.3155. END OF MONTH COMMERCIAL DEMAND WAS CITED AS THE PRIME CONTRIBUTORY FACTOR IN THE UPTURN. ON A TRADE-WEIGHTED BASIS THE POUND WAS RECORDED AT A DEPRECIATED LEVEL OF 17.9 PERCENT ON THURSDAY (SEPT 26) UP 0.3 PERCENTAGE POINTS SINCE LAST THURSDAY. THE PRICE OF GOLD CONTINUED TO FALL, CLOSING THURSDAY (SEPT 26) AT \$144.75, OFF \$4.50 FROM LAST THURSDAY'S CLOSE. THE FORWARD DISCOUNT ON STERLING CONTINUED TO WIDEN REFLECTING END-OF-MONTH AND END-OF-YEAR CONTRACTS. INTEREST RATES REMAINED FAIRLY STABLE. END

I. UK DOMESTIC ECONOMY

1. THE GROWTH OF THE MONEY SUPPLY FROM MID-JULY TO MID-AUG AGAIN AS IN THE PREVIOUS PERIOD SHOWED SIGNS OF ACCELERATION. THE NARROW DEFINITION (M1) ROSE BY 1.2 PERCENT (SEASONALLY ADJUSTED) WHILE ON BROAD DEFINITION (M3) THE MONEY SUPPLY ROSE BY 1.0 PERCENT (S.A.). THE FIGURES FOR THE PREVIOUS 30 DAYS WERE 1.4 PERCENT AND 3.1 PERCENT RESPECTIVELY. BANK ADVANCES IN STERLING TO UK RESIDENTS ROSE BY 1.9 BILLION POUNDS (S.A.) IN THE PERIOD FROM MID-MAY TO MID-AUG, AND WITHIN THAT PERIOD ADVANCES TO MANUFACTURING COMPANIES ROSE BY 983 MILLION POUNDS. THE PREVIOUS PERIOD MID-FEB TO MID-MAY SHOWED SUCH ADVANCES AT 1.1 BILLION POUNDS AND 631 MILLION POUNDS RESPECTIVELY.

HOWEVER, THE MORE RAPID GROWTH OF M3 IN THE LAST TWO MONTHS IS SAID TO HAVE BEEN INFLUENCED BY PUBLIC SECTOR BORROWING (THE SALE OF GILTS HAS BEEN WEAK), AND BY THE GOVT LOAN TO THE BUILDING SOCIETIES.

2. PROVISIONAL DATA ON THE GROWTH OF GROSS DOMESTIC PRODUCT (GDP) FOR THE SECOND QUARTER INDICATES THE WEAKENING STATE OF THE ECONOMY. THE AVERAGE ESTIMATE (OF THE 3 KINDS USED: EXPENDITURE, INCOME AND OUTPUT) SHOWS GDP INDEX AT 105.1 FOR THE SECOND QUARTER (1972 EQUALS 100). THE FIRST QUARTER INDEX FIGURE WAS 101.8 AS THE 3-DAY WEEK CUT PRODUCTION BACK. THE SECOND QUARTER FIGURE REMAINS BELOW UNCLASSIFIED

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THAT OF THE THIRD AND FOURTH QUARTERS OF 1973 (105.4 AND 105.3 RESPECTIVELY) AND CONFIRMS THE SLACK STATE OF THE ECONOMY.

3. WORRIES ABOUT A LIQUIDITY SQUEEZE ON INDUSTRY (WHICH THE BANK OF ENGLAND QUARTERLY BULLETIN EXPRESSED CONCERN ABOUT LAST WEEK) WERE HEIGHTENED BY A WARNING BY THE FOOD PROCESSING INDUSTRY THAT ITS AVERAGE PROFIT LEVEL WAS SO LOW AS TO CREATE THE POSSIBILITY OF PLANT SHUTDOWNS, THUS FURTHER SHORTAGES AND HIGHER PRICES. THE

CONFEDERATION OF BRITISH INDUSTRY (CBI) ALSO PUBLICLY WARNED ABOUT COMPANY CASH-FLOW PROBLEMS, INDICATING INCREASING BANKRUPTCIES ARE LIKELY UNDER PRESENT POLICIES. CHANCELLOR OF THE EXCHEQUER HEALEY INDICATED IN A TELEVISION INTERVIEW THAT THE PRICE CODE IS BEING REVIEWED AND SOME OF ITS RESTRICTIONS MAY BE RELAXED BY THE NEXT GOVT.

4. COMMERCIAL UNION, AN INSURANCE CO, SURPRISED THE FINANCIAL COMMUNITY BY ANNOUNCING A 62.5 MILLION POUND OFFERING OF NEW SHARES TO PRESENT SHAREHOLDERS. THIS IS THE FIRST ATTEMPT TO RAISE CAPITAL ON THE MORIBUND STOCK EXCHANGE IN SOME TIME.

IF THE ISSUE IS SUCCESSFUL IT COULD HELP TO REVIVE THE CAPITAL MARKETS HERE AND PROVIDE SOME LIQUIDITY FOR INDUSTRY, AS OTHER COMPANIES MIGHT TRY TO RAISE CAPITAL THROUGH THE MARKETS.

5. THE PRIMIN ANNOUNCED IN AN ELECTION PRESS CONFERENCE THAT THE CHANCELLOR OF THE EXCHEQUER IS WORKING ON A "FUNDAMENTAL AND FAR-REACHING BUDGET" TO BE INTRODUCED AFTER THE ELECTION. THE BUDGET, HE SAID, WOULD TAKE INTO CONSIDERATION THE LIQUIDITY PROBLEMS OF INDUSTRY, THE BALANCE OF PAYMENTS, AND UNEMPLOYMENT. CHANCELLOR HEALEY ALSO ADDED THAT HE IS READY TO CONSIDER RESCINDING THE ACCELERATED CORPORATION TAX PAYMENT HE ORDERED IN THE MARCH BUDGET.

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INFO OCT-01 EA-11 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-11

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DEPT PASS TREASURY AND FRB

II. INTERNATIONAL

6. STERLING ENDED ITS RATHER STABLE POSITION WITH A STRONG
UPTURN AS THE WEEK ENDED. MENTIONED AS POSSIBLE CONTRIBUTORY
FACTORS TO THE STRENGTHENING WERE THE LARGE US TRADE DEFICIT,
REDUCTION OF THE PRIME RATE BY SEVERAL NEW YORK BANKS AND A RATHER
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NOTICEABLE SWITCHING FROM GERMAN MARKS TO STERLING FOR END-OF-MONTH
COMMERICAL PURPOSES. THE DEVALUATION OF THE AUSTRALIAN DOLLAR WAS
NOT BELIEVED TO BE OF MUCH IMPORTANCE TO THE STRONGER STERLING
POSITION. APPRECIATION CONTINUED WITH FRIDAY (SEPT 27) MORNING'S
TRANSACTIONS AS THE POUND OPENED AT \$2.3272 COMPARED TO LAST
FRIDAY'S CLOSING RATE OF \$2.3145. ON A TRADE-WEIGHTED BASIS
THE POUND SHOWED A DEPRECIATED LEVEL OF 17.9 PERCENT ON THURSDAY
(SEPT 26) (SINCE SMITHSONIAN) COMPARED TO 18.2 PERCENT LAST
THURSDAY (SEPT 19) AND 18.3 PERCENT ON TUESDAY (SEPT 24). GOLD
CLOSED THURSDAY (SEPT 26) AT \$144.75, DOWN \$4.50 FROM LAST
THURSDAY'S CLOSE.

7. PRESS ARTICLES CONCERNING THE BANK OF ENGLAND'S RECENT LETTER
TO SHAREHOLDERS OF CONSORTIUM BANKS ASKING FOR A PLEDGE TO ACCEPT
FULL RESPONSIBILITY AND FULL BACKING (SEE LONDON 12423) INDICATE
FAVORABLE REACTIONS TO THE REQUEST. AS REPORTED, THE REQUEST
WAS VIEWED BY BANK OF ENGLAND AS A SIMPLE FORMALIZATION OF HERETOFORE
INFORMAL UNDERSTANDINGS.

8. THE FORWARD DISCOUNT WIDENED SOMEWHAT REFLECTING END OF MONTH
AND END OF YEAR (3 MONTH) CONTRACTS.

	9/19	9/26	CHANGE
1 MONTH	0.27	0.45	UP 0.18
3 MONTHS	1.45	1.75	UP 0.30
6 MONTHS	3.47	3.75	UP 0.28

(ALL FIGURES IN CENTS)

9. LOCAL AUTHORITY DEPOSIT RATES REMAINED GENERALLY STABLE WITH LITTLE TALK OF POSSIBLE NEAR-TERM REDUCTIONS.

	9/19	9/26	CHANGE
1 MONTH	10-7/8	11-1/8	UP 1/4
3 MONTHS	11-7/8	11-15/16	UP 1/16
6 MONTHS	13	13	UNCHANGED

10. EURODOLLAR RATES FELL SLIGHTLY REFLECTING, IN PART, A REDUCTION IN FOREIGN LOAN DEMAND. CITED WAS A REDUCTION IN JAPANESE BORROWING, A TREND THAT IS EXPECTED TO CONTINUE AS INCREASING AMOUNTS OF OIL DOLLARS FLOW DIRECTLY INTO THE JAPANESE MARKET. (SEE LONDON 12558).

	9/19	9/26	CHANGE
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1 MONTH	11-7/16	11-3/8	DOWN 1/16
3 MONTHS	12	12	UNCHANGED
6 MONTHS	12-7/16	12-1/8	DOWN 5/16

11. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 11-1/2 (SINCE SEPT 20). ANNENBERG

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